

<p align="center">2006-2007 ANNUAL REPORT</p>

GENERAL FUND REVENUE PERFORMANCE

The following table details actual 2006-2007 General Fund revenue collections as compared with the modified budget estimates:

TABLE A
2006-2007 GENERAL FUND REVENUE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(\$000's)

Category	Modified Budget	Budgetary Basis Actual	Variance	% Variance
Property Tax	\$ 186,914	\$ 189,683	\$ 2,769	1.5%
Sales Tax	149,074	149,962	888	0.6%
Transient Occupancy Tax	7,600	8,600	1,000	13.2%
Franchise Fees	38,862	40,415	1,553	4.0%
Utility Tax	77,748	79,129	1,381	1.8%
Licenses and Permits	75,961	74,562	(1,399)	-1.8%
Fines, Forfeitures, and Penalties	13,637	14,052	415	3.0%
Use of Money and Property	14,621	15,634	1,013	6.9%
Revenue from Local Agencies	49,000	45,314	(3,686)	-7.5%
Revenue from the State of California	13,893	13,028	(865)	-6.2%
Revenue from Federal Government	19,097	13,907	(5,190)	-27.2%
Departmental Charges	29,746	29,801	55	0.2%
Other Revenue	28,271	27,128	(1,143)	-4.0%
Subtotal	704,424	701,215	(3,209)	-0.5%
Overhead Reimbursements	33,362	34,301	939	2.8%
Transfers	51,628	52,699	1,071	2.1%
Reimbursements for Services	17,779	17,746	(33)	-0.2%
Subtotal	102,769	104,746	1,977	1.9%
TOTALS*	\$ 807,193	\$ 805,961	\$ (1,232)	** -0.2%

* Excludes Beginning Fund Balance

** After adjusting for grant and reimbursement related revenue not received in 2006-2007 but rebudgeted to 2007-2008, the revenue variance actually resulted in a surplus of \$7.2 million. For these grant revenues, corresponding General Fund expenditure savings were also realized in 2006-2007, with a net zero impact on the General Fund Ending Fund Balance.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

The General Fund revenue performance for 2006-2007 is discussed in detail in the following section. The 2006-2007 actual revenue receipts for each of the major revenue categories are compared to the modified budgets and any significant variances are described. In addition, comparisons with the 2005-2006 collection levels are typically included to indicate collection trends and to provide historical perspective.

As shown in Table A, total revenue received in the General Fund in 2006-2007 was \$806.0 million. This represents an increase of \$42.8 million (up 5.6%) from the actual 2005-2006 collections (\$763.2 million) and was extremely close to (\$1.2 million or 0.2%) the 2006-2007 Modified Budget level. A portion of the growth from the prior year reflects the discontinuation of the State budget action that diverted \$11.1 million from the City's Property Tax revenue in both 2004-2005 and 2005-2006. In 2006-2007, real growth was experienced in many of the revenue categories, including Property Tax, Sales Tax, Transient Occupancy Tax, Franchise Fees, Utility Tax, and Use of Money and Property. Growth in those categories was partially offset by a large decline in the Other Revenue category, which was extremely high in 2005-2006 due to a one-time transfer of \$25 million associated with the HUD loan for the FMC property acquisition, and small declines in the Fines, Forfeitures and Penalties and Licenses and Permits categories.

The variances from the modified budget levels, as well as changes from prior year levels, are better understood through a discussion of the status of the individual General Fund revenue categories, as provided in the following section.

Property Tax

The Property Tax revenue category includes Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax, and Homeowners Property Tax Relief. Property Tax receipts for the 2006-2007 fiscal year totaled \$189.7 million. This collection level was 1.5% above the budgeted estimate of \$186.9 million, and represented growth of 13.9% from the prior year actuals of \$166.6 million. It should be noted however that \$11.1 million of the growth from the prior year was the result of the discontinuation of the diversion of Property tax revenue to the State that has occurred as a budget balancing action for the State in both 2004-2005 and 2005-2006. Excluding that adjustment, Property Tax collections increase by 6.8% in 2006-2007.

- **Secured Property Tax** - receipts of \$169.9 million were 17.3% (\$25.0 million) above the 2005-2006 level of \$144.9 million but less than 1% (\$1.1 million) above the 2006-2007 Modified Budget estimate of \$168.8 million. It should be noted as discussed above, however that a significant portion of the growth from the prior year can be attributed to the discontinuation of the shift of \$11.1 million of Property Tax revenue to the State. Without that adjustment, Secured Property Tax receipts experienced growth of 8.9% in 2006-2007. Collections in 2006-2007 were based on the property tax roll as of January 1, 2006. The

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Property Tax (Cont'd.)

- **Secured Property Tax (Cont'd.)** - housing market had still experienced fairly strong growth through that period as reflected in the Secured Property Tax results.
- **SB 813 Property Tax** - the SB 813 Property Tax component represents the retroactive taxes on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. 2006-2007 receipts of \$8.0 million were down 20.7% from the \$10.1 million collected in 2005-2006, reflecting the recent slowdown in the number of housing resales. In 2006-2007, the number of housing sales dropped 23.7% from the prior year, while the median price of a home remained relatively steady with an increase of 4.3% from June 2006 to June 2007. While the SB 813 Property Tax receipts fell below the prior year collection level, they did exceed the budgeted estimate of \$6.3 million. When the 2006-2007 budget was developed, it was assumed that the slowdown in the housing market would be more severe and would significantly drive down collections in this category.
- **Unsecured Property Tax** – this tax is assessed on major business equipment items and is subject to annual depreciation adjustments. Current and Prior Unsecured Property Tax receipts of \$10.6 million fell slightly below the budgeted estimate of \$10.7 million but increased by 1.6% from the 2005-2006 level of \$10.5 million. This marked the first increase in three years and reflected improvement in the overall economic performance in this region.
- **Homeowner's Exemption Subvention** - this represents the recovery of tax loss resulting from the per-household exemption granted by current State law. Receipts in this tax category of \$1.1 million were consistent with both the budgeted estimate and the 2005-2006 actual collection level.

Sales Tax

The Sales Tax category includes General Sales Tax and Proposition 172 Sales Tax. Sales Tax collections for 2006-2007 of \$150.0 million were 6.9% above (up \$9.7 million) the 2005-2006 year-end level of \$140.3 million, but only 0.6% above the 2006-2007 budget estimate of \$149.1 million.

In the General Sales Tax category, collections of \$145.3 million slightly exceeded the budget estimate of \$144.7 million and tracked 6.8% above the 2005-2006 collection level of \$136.0 million. It is important to note, however, that the growth from the prior year was actually the result of an accrual adjustment from 2005-2006 of \$2.6 million and a higher “triple flip” payment from the State (\$6.9 million) rather than growth in actual tax receipts.

In the first quarter of 2006-2007, Sales Tax receipts actually declined almost 9% from the same quarter in the prior year due to a large, one-time correction that the City had been anticipating.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Sales Tax (Cont'd.)

Factoring out that one-time adjustment, however, growth was essentially flat in that quarter, with an increase of less than 1%. In the second quarter, Sales Tax receipts were very close to the prior year level with a decline of less than 1%. The performance in the third quarter improved slightly with growth of 3.7%. This was the result of strong growth of 10.7% in the Business-to-Business category and 5.4% in the General Retail category, followed by 4.7% growth in Construction, 2.6% growth in Transportation, and 2.0% growth in Food Products. For the fourth quarter, it was assumed that collections would remain at the 2005-2006 collection level given the extremely strong performance in that quarter of 2005-2006 in which growth of almost 13% was realized. Because a three-month lag exists between the period of sales activity and when the City receives its quarterly Sales Tax allocation, the fourth quarter (April through June) was accrued based on this projection.

As discussed in the Monthly Financial Reports and the 2006-2007 Mid-Year Budget Review, Sales Tax payments continue to be impacted by State actions. In March 2005, voters approved Proposition 57, the California Economic Recovery Bond Act, which allowed the State to purchase bonds to reduce the State budget deficit. One aspect of the bond measure, referred to as the “triple flip”, is a very complex set of transactions which involve suspending one-quarter of the Bradley-Burns Sales and Use Tax and replacing the lost revenues with funds set aside from countywide property tax revenues. This change will remain in effect until the State’s bond obligations have been satisfied. As a result, the City has been receiving reduced (down 25%) Sales Tax receipts each month. Under the provisions of the State Budget action, the reduced amounts are offset by payments, made twice a year, from property tax receipts (usually in January and May). The City will, however, continue to record the replacement property tax revenues as Sales Tax receipts as the growth formula for these receipts is tied to Sales Tax and this action is considered a temporary situation. In 2006-2007, the “triple flip” payment of \$36.6 million was \$6.9 million above the prior year payment as it reflected a full year activity while the 2005-2006 payment reflected only a partial year based on the State’s accounting for this payment.

Proposition 172 Half-Cent Sales Tax receipts of \$4.6 million were up 7.6% when compared to the 2005-2006 collection level and were also up 5.0% from the 2006-2007 budgeted estimate of \$4.4 million. This growth reflects the overall Sales Tax performance throughout the State and the relative share that is attributed to San José.

Transient Occupancy Tax

Collections for the General Fund’s portion (4.0%) of the City’s Transient Occupancy Tax (TOT) of \$8.6 million showed encouraging growth, with an increase of 11.9% over the prior year level of \$7.7 million. This collection level was also \$1.0 million (13.2%) above the budget estimate of

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Transient Occupancy Tax (Cont'd.)

\$7.6 million. This marks the third year of strong growth in this category that had experienced significant declines during the downturn in the early years of this decade.

The growth in 2006-2007 was primarily driven by an increase in the average room rate from \$120 to \$133. The increase in the occupancy rate from 57.7% to 59.9% also contributed to this growth.

Franchise Fees

Franchise fee collections of \$40.4 million were \$1.6 million (4.0%) above the 2006-2007 modified budget level of \$38.9 million. The variance between the actual receipts and budget was primarily due to higher than estimated collections in Electric, Gas and Commercial Solid Waste Franchise Fees.

- ***Electric and Gas Franchise Fees*** - for 2006-2007, collections were based on activity that occurred during calendar year 2006. Collections in both categories tracked above both the budgeted estimate and the prior year collection levels. Electric Franchise Fees of \$14.9 million were slightly above the 2006-2007 modified budget level of \$14.7 million and also exceeded the 2005-2006 collection level of \$13.3 million. Gas Franchise Fees of \$5.5 million were \$300,000 (5.7%) above the 2006-2007 modified budget level of \$5.2 million and almost \$200,000 (3.3%) above the 2005-2006 collection level of \$5.3 million.
- ***Cable Television Franchise Fees*** - collections of \$6.0 million slightly exceeded the budgeted estimate of \$5.9 million but far exceeded the 2005-2006 collection level of \$5.0 million (up 20.2%) based on current activity levels. City-Generated Tow Franchise Fee receipts of \$1.2 million were consistent with both the prior year collection level and the budgeted estimate. Water Franchise Fee collections of \$232,000 reflected slight growth when compared with both the budgeted estimate of \$224,000 and the 2005-2006 collection level of \$218,000. Nitrogen Gas Pipeline Franchise Fee receipts of \$52,000 were slightly below the budgeted estimate and prior year collection level of \$58,000.
- ***Commercial Solid Waste Franchise Fee (CSW)*** - collections of \$12.5 million were above both the 2005-2006 modified budget level and the prior year collection level of \$11.6 million. The 7.6% increase in collections from the prior year was primarily the result of the 5% increase in the Commercial Solid Waste Franchise Fee that was approved for 2006-2007. The remaining growth reflected the continued improvement in the economy and increased business activity, which generated higher revenue collections from haulers.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Utility Tax

The City assesses utility user taxes on four utilities: Electricity, Gas, Water, and Telephone. Overall, Utility Tax receipts of \$79.1 million were 1.8% above 2006-2007 modified budget level of \$77.7 million and 4.8% above (\$3.6 million) the 2005-2006 actual level.

- **Electricity Utility Tax** - receipts of \$36.7 million were 1.1% above (up \$400,000) the modified budget estimate of \$36.3 million but 8.1% above (up \$2.7 million) the 2005-2006 level. A portion of the growth in 2006-2007 was the result of the timing of payments and year-end accounting adjustments rather than real growth. The 2005-2006 year-end accrual understated the actual revenue earned in that year and overstated the receipts in 2006-2007. After adjusting for year-end accruals, the actual growth in 2006-2007 was 4.7%.
- **Gas Utility Tax** - collections of \$9.8 million were 3.0% (\$283,000) above the modified budget level of \$9.5 million but well (11.0%) below (\$1.2 million) the prior year collection level of \$11.0 million. The decline in this category had been anticipated when the 2006-2007 budget was developed, assuming that the natural gas prices would decline when compared to the extremely high collections experienced in the prior year as the result of the disastrous hurricane season experienced in that year that resulted in extremely high gas prices.
- **Water Utility Tax** - receipts of \$7.7 million were 5.7% above the modified budget level of \$7.3 million and 6.7% above (\$486,000) the prior year collection level of \$7.2 million. This performance reflects rate increases and consumption changes.
- **Telephone Utility Tax** - collections of \$24.9 million were also slightly (1.1%) above the modified budget level of \$24.6 million and 7.0% above (\$1.6 million) the prior year collection level of \$23.0 million. Almost 30% of the growth from the prior year was also the result of an under-accrual at the end of 2005-2006. The remaining growth was primarily driven by increases in the cellular telephone area, with only slight growth in the landlines.

Licenses and Permits

Revenues in this category include the Cardroom Tax, Business Tax, a Disposal Facility Tax, Fire Permits, Building Permits, and various other health and public safety permits and licenses. Overall, Licenses and Permits collections of \$74.6 million were 1.8% below (down \$1.4 million) the modified budget level of \$76.0 million and 1.7% below (\$1.3 million) the 2005-2006 collection level of \$75.9 million.

- **Cardroom Tax** - receipts of \$12.5 million ended the year well above (\$1.0 million or 9.0%) the modified budget estimate of \$11.5 million and 12.0% above (\$1.3 million) the prior year actual level of \$11.2 million based on increased cardroom activity. The increased visibility and popularity of poker tournaments has been one component of the growth in this area.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Licenses and Permits (Cont'd.)

- **Business Tax** – collections of \$12.1 million ended the year 6.9% (\$900,000) below the budget estimate of \$13.0 million and slightly below the 2005-2006 collection level of \$12.2 million due to a year-end accounting adjustment to augment the bad debt reserve to account for a high level of business tax accounts over 90 days old. Excluding this adjustment, revenues had been on track to achieve the modified budget estimate of \$13.0 million. In 2006-2007, a successful Business Tax Amnesty Program generated over \$1 million in revenues.
- **Disposal Facility Tax** - collections of \$14.7 million ended the year at the modified budget estimate and 5.9% above the 2005-2006 collection level of \$13.9 million. It had been anticipated that collections would increase from the 2005-2006 levels due to the settlement of a dispute in 2005-2006 that impacted collections in that year. In 2005-2006, the City reimbursed Waste Management for the amount paid to the City associated with the removal of the Alternate Daily Cover exemption that was subsequently reinstated. The \$14.7 million collected in 2006-2007 matched the actual performance in 2004-2005.
- **Fire Permits** - receipts of \$6.8 million at year-end were 3.5% below (\$247,000) the modified budget estimate of \$7.1 million and 19.6% below the prior year level of \$8.5 million. The \$8.5 million received in 2005-2006, however, included \$703,000 that should have been deferred to 2006-2007. After normalizing for this adjustment, Fire Permit collections in 2006-2007 tracked only 3.3% below the prior year total. To account for this adjustment in 2006-2007, the Fire Permits revenue estimate was reduced by \$700,000 in June. The 2006-2007 revenue estimate was built assuming a continuation of activity levels from the previous year with a 4.5% fee increase to maintain cost recovery levels. Actual performance, however, fell short of the projections. Non-Development revenues from Annual Renewable Permits, Non-Renewable Permits, and Fire Code Plan Checks were below estimated levels by \$191,000 due to bad debt write-offs of \$750,000. The Finance Department completed a thorough review of the amounts set aside to cover bad debts and adjusted those amounts to ensure that these levels were sufficient. Without this adjustment, non-development revenues would have ended the year above the budgeted estimate. Fire Development-related activity ended the year \$56,000 below the budgeted level. Development Plan Check activities ended the year \$398,000 below anticipated levels. The lower Plan Check revenues were almost entirely offset by higher collections in other development activities, such as alarm and sprinkler systems and inspections. Development inspection activities continued at the previous year's levels due to stable activity levels in high rise residential projects and large commercial projects. While development-related revenues fell slightly below the budgeted estimate, the Fire Fee Program had \$1.1 million of expenditure savings in 2006-2007. As part of this document's proposed actions, a \$1.2 million upward adjustment to the Fire Fee Reserve is proposed to reflect the expenditure savings and interest earnings attributed to the Fee Program, partially offset by the lower revenue collections.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Licenses and Permits (Cont'd.)

- **Building Permits** - receipts of \$21.9 million ended the year 6.1% below (\$1.4 million) the modified budget estimate of \$23.3 million and 8.8% below the prior year level of \$24.0 million. As identified in Monthly Financial Reports, permit revenue throughout the last three quarters of 2006-2007 were consistently below anticipated levels. In recognition of reduced permit revenues, budget estimates were decreased by \$1.0 million in June. Actual collections, however, fell below this revised estimate.

The shortfall in permit revenues was primarily the result of a drop in new construction plan review activity. New residential Plan Check activity dropped 19% in 2006-2007 while revenue collections fell 50% from \$1.8 million in 2005-2006 to \$905,000 in 2006-2007. This performance is in sharp contrast to the 5% growth projected when the budget was developed. Commercial revenue was 37% lower than in 2005-2006. This was largely a result of implementing the new Building fee model in 2006-2007 in which commercial service fees were adjusted downward by approximately 20% to better match revenue and costs. Total new commercial construction activity was 19% lower than 2005-2006 and alterations were 7% higher than 2005-2006. New construction generates higher permit fees than alterations. The change in the mix of project types and the adjustment in fees drove the shortfall in commercial permit revenue.

While revenues ended the year significantly below the budgeted level, expenditures also ended the year well below the budget with savings of \$1.2 million. The combination of expenditure savings and interest earnings attributed to the Building Fee Program were more than sufficient to offset the \$1.4 million shortfall in revenue. In the development fee programs, any excess revenues and interest earnings over costs are recommended to be set aside in the Fee Reserve. Based on 2006-2007 activity, the Building Fee Reserve would be increased by \$233,000. It is recommended elsewhere in this document that this increase to the reserve be used to reduce the 2007-2008 revenue estimate. Should revenues perform at the 2006-2007 levels in 2007-2008, even with the recommended adjustment there could be a shortfall in this category of as much as \$2.1 million. Additional measures will be necessary in 2007-2008 if revenue performance does not improve. The Budget Office will work with the Planning, Building and Code Enforcement Department to develop a strategy to provide stability within this program. The Building Fee Reserve of \$7.9 million is also available to offset any potential revenue shortfalls.

It should be noted that while permit revenue was down in the Building Fee Program, the total valuation of the projects submitted was at an all time high of \$951 million in 2006-2007 due to the number of high rise and high density projects. This resulted in strong development-related tax collections, since those receipts are based on valuation rather than service fees.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Fines, Forfeitures and Penalties

The primary sources of revenue in this category are proceeds from Parking, Municipal Code and Vehicle Codes Fines, and Cardroom and Business Tax Penalties. Collections of \$14.0 million in this category were 3.0% above the modified budget estimate of \$13.6 million but 3.1% below prior year collections of \$14.5 million. Collections exceeded the modified budget and prior year levels in the vehicle code fines, parking fines, and municipal court fines categories. In 2006-2007, the City was also able to collect \$635,000 from an outstanding fine from the Garden City Cardroom that had been delayed due to bankruptcy proceedings. While collections exceeded the budgeted estimate, they fell below the prior year level due to a large one-time bad debt write-off of \$892,000 by the Finance Department. The Finance Department analyzed its bad debt reserve and made adjustments to ensure that an appropriate level of funding was set aside to cover bad debt write-offs for delinquent accounts.

Revenue from Use of Money and Property

The largest source of revenue in the Use of Money and Property category is interest income earned in the General Fund as well as in several capital and special funds. Collections of \$15.6 million ended the year 6.9% above (\$1.0 million) the modified budget level of \$14.6 million and 35.3% above the prior year collection level of \$11.6 million. The large increase from the prior year level reflects larger average cash balances during the year combined with higher average interest rates for the General Fund and several special funds. In 2006-2007, the average cash balance for the General Fund was \$257 million and the average interest yield was 3.9%.

Revenue from Local Agencies

This revenue category contains revenue received from a variety of other local government agencies. The seven largest sources of revenue are the reimbursement for City staff and overhead costs from the Redevelopment Agency; the reimbursement from the Redevelopment Agency for payment of the Convention Center debt service and eligible capital expenditures (which enables the City to fund the San José BEST Program); Enterprise Fund In-Lieu Charges from the Water Pollution Control Plant and the Municipal Water System; payments from the Central Fire District for fire services provided to County residents by the San José Fire Department; and payment for the County Paramedic Program.

Revenue collections of \$45.3 million in the Local Agencies category ended the year 7.5% below (down \$3.7 million) the modified budget but 5.3% above (\$2.3 million) the 2005-2006 collection level. Receipts fell below the budgeted estimate due primarily to lower reimbursement for services provided to the Redevelopment Agency, which were accompanied by expenditure savings; a lower than budgeted Enterprise in-Lieu payment based on an updated calculation of the amount due; lower reimbursement associated with the Santa Clara County Aftercare Program; and lower grant-related reimbursements. Collections tracked above the 2005-2006

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Revenue from Local Agencies (Cont'd.)

level due in large part to a \$2.0 million payment from the County associated with the Automated Fingerprint Identification System (AFIS) that was received in 2006-2007.

Included in this report are recommendations to rebudget the revenue and corresponding expenditure budget for various grants to 2007-2008 as described in section III of this report.

Revenue from the State of California

Revenue collections of \$13.0 million ended the year 6.2% below (\$865,000) the modified budget estimate of \$13.9 million but 12.6% above (up \$1.5 million) the prior year actual level. The variance from the modified budget estimate was due to lower than anticipated Airplane In-Lieu and Motor Vehicle In-Lieu payments as well as fluctuations in grants calculated on a reimbursement basis. Collections in these areas, however, exceeded the 2005-2006 levels. The Airplane In-Lieu collections totaled \$2.1 million in 2006-2007, which were slightly below the modified budget (\$257,000) but above the prior year collection level by \$179,000. This revenue estimate had been increased by \$1.4 million during the year based on collection trends. Motor Vehicle In-Lieu payments totaled \$5.9 million, which were \$291,000 below the modified budget estimate but \$129,000 above the 2005-2006 collection level. This revenue estimate had also been adjusted upwards significantly during the year with a \$1.0 million increase.

Included in this report are recommendations to rebudget the revenue and corresponding expenditure budget for various grants to 2007-2008 and to adjust previous rebudgets based on actual year-end performance, as described in section III.

Revenue from the Federal Government

The proceeds in this category are entirely composed of various grant programs. In 2006-2007, Revenue from the Federal Government of \$13.9 million was 27.2% below (down \$5.2 million) the modified budget estimate of \$19.1 million but well above the 2005-2006 collection level of \$6.3 million. The variance from the budgeted estimate was primarily related to the COPS Interoperable Communications grant (\$3.6 million) that is now expected to be received in 2007-2008 and was rebudgeted as part of the 2007-2008 Adopted Budget, as well as fluctuations in other grants calculated on a reimbursement basis.

Included in this report is a recommendation to adjust the revenue and corresponding expenditure budget for various grants that were previously rebudgeted to 2007-2008 based on actual performance, as described in section III.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges

This category includes the fees and charges levied to recover costs of services provided by various City departments. Collections of \$29.8 million for Departmental Charges were only slightly (0.2%) above (up \$55,000) the modified budget estimate and 6.2% above (\$1.7 million) the 2005-2006 collection level.

A brief description of the performance in each of the departmental fee categories is provided below.

- ***Library Departmental Fees*** – Collections of \$1.35 million were consistent with the 2005-2006 collection levels and 18.9% above the modified budget estimate of \$1.1 million. Collections exceeded the budgeted estimate due primarily to higher than anticipated Library fines that have now tracked at the \$1.2 million level for two years.
- ***Parks, Recreation, and Neighborhood Services Departmental Fees*** – Collections of \$8.4 million ended the year above (\$345,000) the modified budget estimate of \$8.1 million and 8.7% higher (\$671,000) than the \$7.7 million collected in 2005-2006. The \$345,000 positive variance from the modified budget was primarily driven by higher receipts from Animal Care Services (excluding licensing revenues which is included in the Other Licenses and Permits category), Aquatics Program, fees collected at gym fitness centers and facility rentals at various community centers. The higher than expected revenue collection was partially offset by lower than expected revenues for Family Camp and the Adult Sports Program.
- ***Planning Departmental Fees*** – Collections of \$5.1 million ended the year 17.3% below the budget estimate of \$6.2 million and 2.8% below the prior year level of \$5.3 million. In line with the other development-related fee areas, the 2006-2007 estimate was built assuming a continuation of the activity levels of 2005-2006 and fee adjustments of 8%. Permit revenue throughout 2006-2007 however was consistently below anticipated levels as activity in the major permit categories that generate the most revenue dipped as weakness in the housing market drove developers not to begin as many new projects. While the quantity of projects was lower than anticipated, the number of residential permits issued was slightly above forecasted levels with 3,171 units receiving permits when compared to 2,515 units in 2005-2006 due to the mix of high density units. Revenue from minor fee categories also did not experience the growth that had been anticipated and remained at 2005-2006 levels, further exacerbating the cost recovery shortfall in the Planning Fee Program.

Specific fee categories that performed at or better than expected were General Plan Update, Public Information Services, Miscellaneous Permits, Residential: Development Permit Adjustments and Conditional Use Permits; and Non-Residential: Tentative Maps, Conventional Rezoning/Rezoning, Environmental Clearances, Site Development Permits, Planned Development Permits, Development Permit Adjustments, and Conditional Use Permits. This performance was more than offset by lower than anticipated revenue

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges (Cont'd.)

collections in Single Family Design Review, Annexations, Public Noticing, Preliminary Review, Residential: General Plan Amendments, Planned Development Prezonings/Rezonings, Conventional Prezonings/Rezonings, Environmental Clearances, Site Development Permits, Planned Development Permits; and Non-Residential: Tentative Maps, General Plan Amendments, and Planned Development Prezonings/Rezonings.

The lower revenue collections were partially offset by expenditure savings and interest earnings in this development fee program. Based on the year-end reconciliation of development fee program costs and revenues, a downward adjustment of \$603,000 to the existing Planning Fee Reserve of \$632,000 is recommended in this document. This will, however, almost entirely deplete this reserve, leaving little room for revenue shortfalls in 2007-2008. Because actual collections in 2006-2007 fell short of the estimates used in the development of the 2007-2008 budget, performance will have to improve significantly to meet the 2007-2008 budgeted estimate of \$6.3 million. The Budget Office will work with the Planning, Building and Code Enforcement Department to develop a strategy to ensure that an acceptable plan is developed to provide stability within this program.

- ***Police Departmental Fees*** – Collections of \$1.7 million at year-end were 2.7% (\$44,000) above the modified budget estimate of \$1.6 million and 13.4% (\$200,000) above actual collections of \$1.5 million in 2005-2006. This performance is mainly attributed to higher revenues received for Repossessed Vehicle fees, Vehicle Impound Release, miscellaneous Police fees, and State reimbursements for Police Officer Standards and Training (POST), partially offset by lower collections for Photostats, Special Service, and Driving Under the Influence.
- ***Public Works Departmental Fees*** – Collections of \$8.1 million ended the year 2.1% above the modified budget estimate of \$7.9 million and 9.5% above the \$7.4 million collected in 2005-2006. The development-related portion of the fees of \$7.85 million ended the year slightly below the estimate. Revenues in the residential and non-residential engineering, materials testing, and utility excavation permit categories performed at higher than estimated levels. However, this performance was offset by lower than anticipated collections in the geologic, parcel map, traffic report, and electrical design categories.

Although the development-related revenues were slightly below anticipated levels, expenditures also were below the budgeted level, producing savings of \$195,000. When actual expenditures are compared to revenues, the Development Fee Program ended the year with a surplus of \$152,000, which is recommended to be added to the Public Works Development Fee Program Earmarked Reserve as part of this document.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Departmental Charges (Cont'd.)

- **Transportation Departmental Fees** – Collections of \$1.2 million ended the year 26.5% above (\$261,000) the modified budget estimate of \$983,000 and 6.6% above (\$77,000) the \$1,167,000 collected in 2005-2006. The strong performance in this category was primarily driven by higher than anticipated receipts for a number of development-related fees including Geometric Design Fee (up \$135,000), Non-Residential Signal Review (up \$81,000), and Residential Signal Review (up \$13,000). Contributing to the strong performance in this category were higher than anticipated collections for Miscellaneous Traffic Repairs that ended the year \$46,000 above estimates; Residential Permit Parking that ended the year \$42,000 above estimates; and other Miscellaneous Charges that ended the year \$18,000 above estimates. The higher than anticipated revenue collections were slightly offset by lower collections for the Tree Planting Charges which ended the year \$57,000 below estimates and Residential Signal Design which ended the year \$17,000 below estimates.
- **Miscellaneous Departmental Fees and Charges** – Collections of \$3.9 million ended the year 2.3% above the modified budget estimate of \$3.8 million and 5.8% above the prior year actual level of \$3.7 million. The positive variance from the budgeted estimate and the prior year level was primarily the result of higher legal settlements and reimbursements.

Other Revenue

Other Revenue receipts of \$27.1 million were 4.0% below (\$1.1 million) the modified budget level of \$28.3 million and significantly below the 2005-2006 collection level of \$43.6 million. The variance to budget was primarily related to lower reimbursement revenue for the Evergreen Strategy (down \$1.1 million) and the Coyote Valley Specific Plan (down \$1.3 million), partially offset by higher miscellaneous revenue. Since the Coyote Valley Specific Plan and Evergreen Strategy revenues are received on a reimbursement basis, there were expenditure savings to fully offset the lower revenue collections with a net zero impact on the General Fund.

Collections in 2006-2007 were well below the 2005-2006 levels due to the receipt of one-time loan proceeds of \$25.1 million related to the FMC land purchase in 2005-2006. The 2006-2007 receipts exceeded the prior year in several categories, including SB 90 reimbursements, and the Comcast Public, Educational, and Governmental (PEG) Access revenues that were due as part of the final franchise agreement with Comcast.

Included in this report is a recommendation to increase the revenue and corresponding expenditure budget for various grants to rebudget these funds to 2007-2008, as described in section III.

2006-2007 ANNUAL REPORT

GENERAL FUND REVENUE PERFORMANCE (CONT'D.)

Transfers and Reimbursements

This category includes overhead reimbursements, transfers to the General Fund, and reimbursements for services. Overall collections ended the year at \$104.7 million, which was almost \$2.0 million (1.9%) above the budgeted estimate of \$102.8 million. The positive variance was due to higher overhead reimbursements and a higher transfer from the Construction and Conveyance Tax Fund.

- **Overhead Reimbursements** - Payments from other funds for overhead costs of \$34.3 million ended the year 2.8% above the modified budget estimate of \$33.4 million. This variance represents the net result of a series of over- and under-budgeted performances from over 45 special and capital funds that reimburse the General Fund. These differences occurred where fund activities were over or under the level assumed in the modified budget estimates. The positive variance was driven by higher than anticipated collections from various capital funds (e.g., Construction and Conveyance Tax Funds, Building and Structure Construction Tax Fund) based on actual activity levels.
- **Transfers** - Revenue from the Transfers category of \$52.7 million ended the year 2.0% above the modified budget level of \$51.6 million. The positive variance resulted from the higher transfer from the Construction and Conveyance Tax Fund for operating and maintenance costs based on actual revenue collections. This transfer totaled \$4.1 million, which was almost \$1.5 million above the budget estimate of \$2.6 million. As part of this document, it is recommended per Council Policy that this additional revenue of \$1.5 million be placed in the Enhanced Parks Maintenance Reserve.
- **Reimbursement for Services** - Collections of \$17.7 million in the Reimbursements for Services category were 0.2% below (down \$33,000) the modified budget level. The slight negative variance was due to lower than anticipated reimbursements for Maintenance Assessment Districts and Deferred Compensation costs.

Summary

In 2006-2007, total revenue received by the General Fund of \$806.0 million was slightly lower than the modified budget level by \$1.2 million or 0.2%. After adjusting for grant and reimbursement related revenues not received in 2006-2007, but rebudgeted to 2007-2008, however, revenues actually ended the year \$7.2 million (0.9%) above the budgeted estimate. This is a very small variance given the diversity of the City's revenues and the overall size of the General Fund. The outcome does, however, represent the net impact of a number of positive and negative variances already described in this section.

The Administration will continue to monitor collections actively for 2007-2008 through the Bi-Monthly Financial Report process, and return with recommendations for any revisions that seem appropriate during the Mid-Year Budget Review.